

PERAC AUDIT REPORT



Lowell

Contributory Retirement System



JAN. 1, 2006 - DEC. 31, 2007



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

July 13, 2009

The Public Employee Retirement Administration Commission has completed an examination of the Lowell Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2006 to December 31, 2007. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission, with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Richard Ackerson and James Sweeney who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Executive Director
Joseph E. Connarton



EXPLANATION OF FINDINGS AND RECOMMENDATIONS

I. Cash Reconciliation

The Board has not received the reconciliation of a checking account from the City Treasurer for over 18 months. The auditor met with the Treasurer and found that he did not totally understand what was expected from him as the custodian. The auditor explained that the Treasurer should be providing the retirement board with the required information on a monthly basis. The auditor did a cash reconciliation as of 12/31/08 and there was an unidentified variance of \$107,846.97.

The review also showed that there were seven checks totaling \$5,196.07 that were outstanding for over six months.

Recommendation: The City Treasurer shall be the custodian of the retirement system's funds according to G.L. c. 32, § 23 (2) (a). As custodian of the retirement fund, the Treasurer is obligated to perform a monthly reconciliation of all retirement system cash accounts. This process is necessary to maintain proper internal control of the retirement system by segregating reconciliatory duties. The Board must ensure that the Treasurer fulfills his/her obligation as custodian of the fund. The treasurer must reconcile the cash account monthly and forward appropriate paperwork (copies of bank statements, reconciliation and outstanding check list) to the retirement board in a timely manner. The retirement board should then reconcile the bank statements to the general ledger. Variances must be explained and adjusting entries made. The Board should review the specifics of each reconciliation at their monthly meeting.

The Board needs to work with the Treasurer to resolve the current variance. This may involve reviewing all the previous months that were not reconciled.

Checks that are identified as being outstanding for more than six months should be researched so that they can be properly voided and updated.

Board Response:

The Lowell Retirement Board's staff is currently working with the City Treasurer to reconcile the checking account.

2. Appropriations

The auditor reviewed the appropriation payments and found that the City of Lowell had underpaid their FY07 appropriation by \$113,412 and the Lowell Housing Authority had under paid their FY08 appropriation by \$240,727.75. It was also determined that the Board does not monitor the process to ensure each unit pays the full amount of their appropriation.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Recommendation The Board must collect the unpaid amounts from the City and Housing Authority. A process must be implemented to ensure all payments are received in accordance with the approved funding schedule. Interest, at the assumed rate of investment return, should be assessed for any late payments.

Board Response:

The Lowell Housing Authority was contacted regarding the FY08 appropriation payment and has been paid in full.

The Board reviewed the FY07 appropriation payments for the City of Lowell and it was discovered that the City was incorrectly billed for FY07 and paid all payments in full.

There is now a procedure in place to monitor all appropriation payments and ensure they are paid in accordance with the approved funding schedule.

3. Accounts Receivable

The auditor was unable to reconcile the Accounts Receivable account. There was \$278,000 that could not be supported. It appears that the Board, when submitting their Annual Statement, altered Schedule A to make it agree with the reported balance. It was also noted that, in many cases, items were booked to Accounts Receivable but when the cash was ultimately received, incorrect entries were processed and the items were never removed from the Accounts Receivable account.

Recommendation: The Board must reconcile the Accounts Receivable account on a regular basis and ensure that all entries can be supported. They must also ensure that proper entries are processed to remove items from Accounts Receivable.

Board Response:

The Accounts Receivable account will be reconciled on a regular basis and the Board will ensure all entries can be supported. Entries will also be processed to remove items from Accounts Receivable.

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,	
	2007	2006
Net Assets Available For Benefits:		
Cash	\$3,189,900	\$1,388,179
Short Term Investments	866,559	135,856
Fixed Income Securities	0	0
Equities	663,081	744,496
Pooled Alternative Investment Funds	4,169,655	4,298,006
Pooled Real Estate Funds	2,225,054	2,426,985
PRIT Cash Fund	2,007,585	2,008,890
PRIT Core Fund	260,497,771	238,293,651
Interest Due and Accrued	0	2,694
Accounts Receivable	8,929,091	7,576,284
Accounts Payable	0	(10,077)
Total	<u>\$282,548,695</u>	<u>\$256,864,965</u>
Fund Balances:		
Annuity Savings Fund	\$73,935,919	\$69,870,481
Annuity Reserve Fund	21,866,336	21,462,161
Pension Fund	7,680,868	6,219,084
Military Service Fund	13,998	1,751
Expense Fund	0	0
Pension Reserve Fund	<u>179,051,573</u>	<u>159,311,488</u>
Total	<u>\$282,548,695</u>	<u>\$256,864,965</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2006)	65,696,865	21,622,829	(2,378,725)	1,741	0	139,509,376	224,452,085
Receipts	7,727,004	639,808	15,513,675	10	2,013,559	34,559,143	60,453,200
Interfund Transfers	(2,118,162)	2,013,516	14,861,678	0	0	(14,757,032)	0
Disbursements	(1,435,226)	(2,813,991)	(21,777,544)	0	(2,013,559)	0	(28,040,320)
Ending Balance (2006)	69,870,481	21,462,161	6,219,083	1,751	0	159,311,488	256,864,964
Receipts	8,107,092	622,616	16,906,496	12,247	1,961,206	26,365,952	53,975,608
Interfund Transfers	(3,055,575)	2,778,512	6,902,929	0	0	(6,625,866)	0
Disbursements	(986,078)	(2,996,952)	(22,347,640)	0	(1,961,206)	0	(28,291,878)
Ending Balance (2007)	<u>\$73,935,919</u>	<u>\$21,866,336</u>	<u>\$7,680,868</u>	<u>\$13,998</u>	<u>\$0</u>	<u>\$179,051,573</u>	<u>\$282,548,694</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,	
	2007	2006
Annuity Savings Fund:		
Members Deductions	\$6,986,163	\$6,785,503
Transfers from Other Systems	427,935	283,283
Member Make Up Payments and Re-deposits	289,859	275,561
Member Payments from Rollovers	0	0
Investment Income Credited to Member Accounts	<u>403,135</u>	<u>382,658</u>
Sub Total	<u>8,107,092</u>	<u>7,727,004</u>
Annuity Reserve Fund:		
Investment Income Credited to the Annuity Reserve Fund	<u>622,616</u>	<u>639,808</u>
Pension Fund:		
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	343,800	337,239
	900,947	946,551
Pension Fund Appropriation	<u>15,661,749</u>	<u>14,229,885</u>
Sub Total	<u>16,906,496</u>	<u>15,513,675</u>
Military Service Fund:		
Contribution Received from Municipality on Account of Military Service	12,163	0
Investment Income Credited to the Military Service Fund	<u>83</u>	<u>10</u>
Sub Total	<u>12,247</u>	<u>10</u>
Expense Fund:		
Expense Fund Appropriation	0	261,812
Investment Income Credited to the Expense Fund	<u>1,961,206</u>	<u>1,751,747</u>
Sub Total	<u>1,961,206</u>	<u>2,013,559</u>
Pension Reserve Fund:		
Federal Grant Reimbursement	0	563,903
Pension Reserve Appropriation	0	275,403
Interest Not Refunded	6,981	11,888
Miscellaneous Income	0	0
Excess Investment Income	<u>26,358,970</u>	<u>33,707,949</u>
Sub Total	<u>26,365,952</u>	<u>34,559,143</u>
Total Receipts	<u>\$53,975,608</u>	<u>\$60,453,200</u>

STATEMENT OF DISBURSEMENTS

		FOR THE PERIOD ENDING DECEMBER 31,	
		2007	2006
Annuity Savings Fund:			
Refunds to Members		\$569,109	\$1,055,661
Transfers to Other Systems		<u>416,969</u>	<u>379,566</u>
Sub Total		<u>986,078</u>	<u>1,435,226</u>
Annuity Reserve Fund:			
Annuities Paid		2,945,691	2,775,589
Option B Refunds		<u>51,262</u>	<u>38,402</u>
Sub Total		<u>2,996,952</u>	<u>2,813,991</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments		13,222,061	13,183,968
Survivorship Payments		1,633,948	1,437,927
Ordinary Disability Payments		265,578	308,850
Accidental Disability Payments		5,212,802	4,845,171
Accidental Death Payments		1,258,830	1,289,590
Section 101 Benefits		379,837	315,060
3 (8) (c) Reimbursements to Other Systems		374,585	396,978
State Reimbursable COLA's Paid		0	0
Chapter 389 Beneficiary Increase Paid		<u>0</u>	<u>0</u>
Sub Total		<u>22,347,640</u>	<u>21,777,544</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds		<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend		13,867	13,601
Salaries		143,693	139,536
Legal Expenses		87,586	153,880
Medical Expenses		0	0
Travel Expenses		3,794	3,062
Administrative Expenses		44,229	30,130
Furniture and Equipment		23,260	0
Management Fees		1,602,871	1,587,151
Custodial Fees		22,915	26,706
Consultant Fees		3,093	45,000
Rent Expenses		0	0
Service Contracts		0	0
Fiduciary Insurance		<u>15,898</u>	<u>14,493</u>
Sub Total		<u>1,961,206</u>	<u>2,013,559</u>
Total Disbursements		<u>\$28,291,878</u>	<u>\$28,040,320</u>

INVESTMENT INCOME

FOR THE PERIOD ENDING DECEMBER 31,		
	2007	2006
Investment Income Received From:		
Cash	\$22,083	\$58,382
Short Term Investments	19,105	38,415
Fixed Income	0	0
Equities	20,707	21,984
Pooled or Mutual Funds	8,619,020	7,683,807
Commission Recapture	0	0
Total Investment Income	<u>8,680,915</u>	<u>7,802,588</u>
Plus:		
Realized Gains	16,955,160	16,152,455
Unrealized Gains	25,315,676	22,098,396
Interest Due and Accrued on Fixed Income Securities - Current Year	0	2,694
Sub Total	<u>42,270,835</u>	<u>38,253,545</u>
Less:		
Paid Accrued Interest on Fixed Income Securities	0	0
Realized Loss	(470,422)	(589,666)
Unrealized Loss	(21,135,318)	(8,981,659)
Interest Due and Accrued on Fixed Income Securities - Prior Year	0	(2,638)
Sub Total	<u>(21,605,740)</u>	<u>(9,573,962)</u>
Net Investment Income	<u>29,346,010</u>	<u>36,482,172</u>
Income Required:		
Annuity Savings Fund	403,135	382,658
Annuity Reserve Fund	622,616	639,808
Military Service Fund	83	10
Expense Fund	1,961,206	1,751,747
Total Income Required	<u>2,987,040</u>	<u>2,774,223</u>
Net Investment Income	<u>29,346,010</u>	<u>36,482,172</u>
Less: Total Income Required	<u>2,987,040</u>	<u>2,774,223</u>
Excess Income To The Pension Reserve Fund	<u>\$26,358,970</u>	<u>\$33,707,949</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2007			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$3,189,900	1.2%	100%
Short Term	866,559	0.3%	
Fixed Income	0	0.0%	
Equities	663,081	0.2%	
Pooled Alternative Investment Funds	4,169,655	1.5%	
Pooled Real Estate Funds	2,225,054	0.8%	
PRIT Cash Fund	2,007,585	0.7%	
PRIT Core Fund	<u>260,497,771</u>	<u>95.2%</u>	100%
Grand Total	<u>\$273,619,604</u>	<u>100.0%</u>	

For the year ending December 31, 2007, the rate of return for the investments of the Lowell Retirement System was 11.79%. For the five-year period ending December 31, 2007, the rate of return for the investments of the Lowell Retirement System averaged 14.56%. For the 23-year period ending December 31, 2007, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Lowell Retirement System was 10.97%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Lowell Retirement System submitted the following supplementary investment regulations, which were approved by the Public Employee Retirement Administration Commission on:

October 13, 2004

16.08

In accordance with Investment Guideline 99-3, the Lowell Retirement Board is authorized to invest in Ascent Venture Partners IV, L.P. The board has been a satisfied investor in Ascent's two predecessor partnerships, and Fund IV has the same management group and investment strategy.

September 3, 2002

16.08

The Lowell Retirement Board is authorized to withdraw the funds currently held in its large cap value mandate with Cutler & Company and temporarily place the proceeds in State Street Global Advisors' Russell 1000 Value Index pending the selection of a permanent replacement manager. This temporary authorization extends through December 31, 2002.

June 28, 2001

16.08

In accordance with PERAC Investment Guideline 99-2, the Lowell Retirement System may modify its investment mandate with Cutler & Company, its large cap value equity manager. The System wants to achieve exposure to mid cap as well as large cap value equity but does not intend to seek a separate account for this sub class. It will modify its existing mandate to allow Cutler & Company to opportunistically add mid cap value equities to its portfolio in a proportion that will usually not exceed 25%. The System has had a satisfactory relationship with Cutler & Company for almost five years and they and their consultant are comfortable with the firm's capabilities in mid caps.

December 19, 2000

16.08

In accordance with PERAC Investment Guideline 99-3, the Lowell Retirement Board may invest in Charles River Partnership X. The System has had a very satisfactory relationship with Charles River Ventures in its four immediately preceding partnerships.

December 19, 2000

16.08

In accordance with PERAC Investment Guideline 99-3, the Lowell Retirement Board may invest in Charles River Partnership XI. The System has had a very satisfactory relationship with Charles River Ventures in its five immediately preceding partnerships.

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

February 10, 2000

16.08

In accordance with PERAC Investment Guideline 99-3, the Lowell Retirement System may invest in Boston Millennia Partners II, L.P. The system has previously invested in Boston Millennia Partners I and has indicated that performance to date has been very favorable. All required supporting documents have been submitted.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Lowell Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

Group 1:

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire no later than the end of month they attain age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, § 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, § 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, § 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”.

Retirement Allowance: Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$687.96 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$312 per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000 from the State Retirement Board.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

NOTES TO FINANCIAL STATEMENTS (Continued)

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

NOTES TO FINANCIAL STATEMENTS (Continued)

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Lowell Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

January 14, 2009

Lowell Retirement Board's Supplemental Creditable Service Regulation

Members of the Lowell Retirement System shall receive creditable service, in whole month increments, consistent with this regulation in the following manner:

- For a member in service who is employed in a full-time capacity, he/she will receive one (1) month of creditable service for each full month for which the employee receives regular compensation and remits the appropriate contributions to the Lowell Retirement System, with said service not to exceed one (1) year of creditable service in any calendar year.
- For a member in service who is employed in a part-time capacity throughout his/her entire career, he/she will receive one (1) month of creditable service for each full month for which the employee receives regular compensation and remits the appropriate contributions to the Lowell Retirement System, with said service not to exceed one (1) year of creditable service in any calendar year.
- For a member who has rendered membership service in the Lowell Retirement System in both a full-time and part-time capacity, the member shall receive full credit for all full-time service and prorated credit for part-time service based on the full-time equivalency of 35 hours per week.
- For a member who is employed in a part-time capacity throughout his/her career but who either purchases past refunded service, or has transferred into the Lowell Retirement System previous service rendered in a full-time capacity, the member's part-time service shall be prorated based on the full-time equivalency of 35 hours per week.
- In the case of School Department employees whose full-time employment requires them to work from on or about September 1 to on or about June 30th, including but not limited to cafeteria workers, clerical and secretarial staff, teacher's assistant and teaching professionals, such as therapists, said employees shall receive one month of creditable service for each full month the employee is receiving regular compensation, with ten (10) months being the equivalent of one (1) year of creditable service. School Department employees who are employed in a part-time capacity shall have their creditable service prorated in the same manner as all members of the Lowell Retirement System as set forth in this regulation.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

- The Board recognizes that certain School Department employees, including but not limited to custodians and secretaries, are required to work the entire calendar year, and in such a situation, said employee's creditable service will be calculated based on a twelve (12) month year.
- Creditable service for 10 month employees shall be based on 1,202.5 hours being the equivalent of 1 year, whereas creditable service for 12 month employees shall be based on 1,827 hours per year.
- Any member purchasing past part-time service rendered shall have said service prorated based on 35 hours per week being considered a full-week of service. Notwithstanding the foregoing, any member who works part-time his/her entire career, and purchases past part-time service rendered, will have all creditable service deemed to be full-time. Members may only purchase past part-time or temporary service rendered in member unit of the Lowell Retirement System.
- It is the policy of the Lowell Retirement Board to accept liability pursuant to M.G.L. c. 32, § 3(8)(c) consistent with this regulation for former City of Lowell Employees whose positions were funded through the Comprehensive Employment Training Act ("CETA") and would have otherwise been eligible for membership in the Lowell Retirement System at the time said service was actually rendered.

May 21, 1991

Regular Compensation Clothing or uniform allowances included in regular compensation under certain conditions.

August 31, 1987

Creditable Service to grant a full year of creditable service for each school year employed for permanent full-time School Library Aides (35 hours per week) subject to review at time of retirement. To grant six (6) months creditable service to provisional or permanent employees who work twenty (20) hours per week for one full year.

December 27, 1984

Creditable Service Temporary employees who work not less than seven months in a calendar year given a full year's credit, otherwise credited only with actual time worked.

December 27, 1984

Public Records As of April 27, 1977, medical records and financial statements pertaining to members and retirees of the Retirement System are not public records.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

December 27, 1984

Creditable Service

Full year creditable service for each school year employed for regularly employed full time school cafeteria employees (35 hours per week) subject to review at time of retirement. If a cafeteria employee transfers to another position, the time employed as a cafeteria worker shall be credited on a 42-week formula for each school year employed. The creditable service for permanent part-time cafeteria employees shall be computed on the actual time worked.

December 27, 1984

Membership

Special education aides who are regularly employed in the school department must become members of the retirement system. Applications for membership for each special education aide are to be forwarded to the school department.

December 27, 1984

Creditable Service

Full year creditable service for each school year employed for regularly employed full time special education aides (35 hours per week) subject to review at time of retirement. If a special education aide transfers to another position, the time employed as a special education aide shall be credited on a 42-week formula for each school year employed.

January 16, 2003

The Board has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). (Regulation available upon written request.)

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the city auditor who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Sheryl L. Wright

Appointed Member: Thomas Moses Term Expires: Until Replaced

Elected Member: Joseph Mahoney Term Expires: 12/13/11

Elected Member: William Desrosiers Term Expires: 8/30/10

Appointed Member: Michael Brennan Term Expires: 4/29/09

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	
Ex-officio Member:)	\$50,000,000 Fiduciary
Elected Member:)	\$1,000,000 Dishonesty
Appointed Member:)	MACRS Policy
Staff Employee:)	St. Paul Travelers, National Union Fire and Arch

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Buck Consultants as of January 1, 2007.

The actuarial liability for active members was	\$192,086,902
The actuarial liability for retired, beneficiaries, disabilities and inactive members was	<u>204,303,321</u>
The total actuarial liability was	396,390,223
System assets as of that date were	233,197,405
 The unfunded actuarial liability was	 <u>\$163,192,818</u>
The ratio of system's assets to total actuarial liability was	58.8%
As of that date the total covered employee payroll was	\$79,636,851

The normal cost for employees on that date was 8.3% of payroll

The normal cost for the employer before administrative expenses was 4.2% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.25% per annum
 Rate of Salary Increase: 4.75% and 5.25% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2007

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2007	\$233,197,405	\$396,390,223	\$163,192,818	58.8%	\$79,636,851	204.9%
1/1/2006	\$215,006,620	\$367,392,106	\$152,385,486	58.5%	\$75,223,915	202.6%
1/1/2004	\$212,820,983	\$333,362,336	\$120,541,353	63.8%	\$70,987,841	169.8%
1/1/2003	\$193,158,554	\$316,822,473	\$123,663,919	61.0%	\$75,040,045	164.8%
1/1/2002	\$182,913,557	\$310,653,028	\$127,739,471	58.9%	\$72,576,500	176.0%
1/1/2001	\$199,137,217	\$254,402,658	\$55,265,441	78.3%	\$64,733,264	85.4%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Retirement in Past Years										
Superannuation	20	49	11	43	39	108	27	30	31	35
Ordinary Disability	1	2	0	0	1	0	2	2	0	0
Accidental Disability	8	14	3	7	5	7	7	3	4	9
Total Retirements	29	65	14	50	45	115	36	35	35	44
Total Retirees, Beneficiaries and Survivors	1,075	1,119	1,055	1,087	1,117	1,198	1,201	1,187	1,164	1,185
Total Active Members	2,011	2,086	2,057	1,946	2,070	1,882	1,828	1,850	1,879	1,932
Pension Payments										
Superannuation	\$8,092,754	\$8,233,670	\$8,576,651	\$8,999,106	\$9,558,502	\$10,913,828	\$12,508,875	\$12,656,982	\$13,183,968	\$13,222,061
Survivor/Beneficiary Payments	1,092,825	1,107,143	1,229,233	1,258,431	1,303,560	1,274,498	1,312,659	1,400,753	1,437,927	1,633,948
Ordinary Disability	286,941	280,430	291,733	302,302	312,850	306,139	292,045	309,702	308,850	265,578
Accidental Disability	3,833,159	3,925,590	4,105,347	4,548,124	4,591,751	4,659,335	4,763,362	4,893,085	4,845,171	5,212,802
Other	1,791,608	1,740,767	1,763,686	1,748,390	1,857,396	1,917,176	1,970,614	2,072,713	2,001,628	2,013,252
Total Payments for Year	<u>\$15,092,287</u>	<u>\$15,287,600</u>	<u>\$15,966,650</u>	<u>\$16,856,353</u>	<u>\$17,624,059</u>	<u>\$19,070,976</u>	<u>\$20,847,553</u>	<u>\$21,333,236</u>	<u>\$21,777,544</u>	<u>\$22,347,640</u>

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